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TAGS: [PREL](#) [MARR](#) [ECON](#) [KS](#) [KN](#)
SUBJECT: KIC ACCESS RESTRICTIONS: DPRK'S INEXPLICABLE
BEHAVIOR AND ROKG'S LIMITED OPTIONS

REF: SEOUL 00381

Classified By: POL M/C Joseph Y. Yun. Reasons 1.4(b/d)

11. (C) SUMMARY: Despite what ROK observers believed was the DPRK's deliberately provocative decision to restrict Kaesong Industrial Complex (KIC) access for the second time in a week on March 13, the South Korean government and businesses communities are not yet ready to give up on the six-year-old project, the sole operational example of inter-Korean economic cooperation project. The ROKG and South Korean companies, showing resilience in the face of the DPRK's unpredictable and unexplained behavior, are taking a day-by-day approach, not knowing whether additional border restrictions will be imposed in the near future. However, both government and business contacts told us that the KIC would be in danger of permanent closure if the North again cuts off access to the KIC after the March 20 completion of U.S.-ROK joint military exercises. END SUMMARY.

Sequence of Events

12. (SBU) The initial March 9 cutoff of access to the KIC resulted from the DPRK's announcement that morning that the North would cut off military-to-military communications during the Key Resolve/Foal Eagle joint U.S.-ROK military exercises (March 9-20): "As an immediate measure, during the period when the war exercises for northward aggression are ongoing we will carry out stricter military control ...and we will also cut off North-South military communications." Officials and business contacts told us that they believe civilian DPRK officials at the KIC did not expect the western transportation corridor to be closed that day (reftel); ROKG officials were intrigued by the hint of internal confusion on the DPRK's part that day.

13. (SBU) The DPRK resumed border crossings the next day on March 10. Three days later on March 13, for the second time in a week, North Korea closed the inter-Korean border, preventing about 655 South Korean citizens from returning to South Korea over the weekend. Journalists told us that the ROKG pressed them not to refer to South Koreans stuck at the KIC over the weekend as "detained" but instead as "delayed," to preserve a calm atmosphere. Nevertheless, YTN's (CNN equivalent) March 16 morning news said that the KIC issue would have to reach a "climax" that day. The prospective

crisis was defused because the DPRK authorities granted exit permission on March 16, also allowing entry into the KIC on March 17. Crossings proceeded without major problems on March 18-19, though the continued cutoff of military-to-military communications required work-around communications by civilian telephone and fax. On March 20, border crossings were restricted once again. At close of business on March 20, the DPRK authorities sent a fax message through a civilian channel in the KIC stating that communications -- and consequently, two-way border crossing -- would resume by March 21. As a result of this abrupt border closure on March 20, 1,182 people were stranded (667 people scheduled to enter the KIC and 520 people who planned to return to the South). ROKG officials and KIC businessmen were essentially holding their breath, hoping that the episodic KIC access closures will be over as of the end of the military exercises. They were also reviewing ROKG options and trying to analyze DPRK behavior.

ROKG Reactions

-- Blue House

14. (C) In a March 17 meeting with us, commenting on the North's KIC access restrictions and the March 13-16 period when South Koreans were stuck at the KIC, La Won-Chang, Assistant to the President for Planning and Coordination at the Blue House, described the inter-Korean atmosphere as "very sensitive" and said the ROKG believed it was important to "not provoke" North Korea. He said that the best option for the ROKG over that weekend was to "wait and see." Other

options, such as closing the KIC or ordering ROK firms to withdraw, would have been too provocative, since ROK citizens were still on the North Korean side.

-- MOFAT

15. (C) MOFAT Director for Inter-Korean Affairs Chin Ki-hoon told us on March 18 that he could not yet draw conclusions about the North's intentions in connection with the on-again, off-again access to the KIC and could not predict whether there would be additional closures. He added that the chief concern going forward was how to ensure the safety of South Korean citizens at the KIC, on top of the safety and free passage guarantee that is already part of the South-North agreement on KIC (Article 10.1: "The North guarantees non-aggression to the body, residence, and property of personnel."). ROKG officials were discussing the issue, but understood that it was unlikely that the DPRK would sign a reinforced safety agreement in the context of no inter-Korean dialogue.

16. (C) Chin said MOFAT's initial take was that the North was continuing its year-long efforts to pressure the ROKG to change its DPRK policy, as well as trying to foment unrest among South Koreans. Neither effort had succeeded, because the ROKG was determined to maintain its calm approach to the DPRK. A recent poll showed that 73 percent of South Koreans held the North fully responsible for the closures, whereas only 15 percent thought the ROKG provoked the closure by participating in joint military exercises.

17. (C) Asked about other theories making the rounds -- such as the closures being a sign of the North Korean People's Army asserting itself over civilian counterparts, or that the closures were meant to signal the North's desire to have the South close the KIC -- Chin said that not enough information was available to be able to draw such conclusions. He reiterated what Minister of Unification Hyun In-taek told journalists on March 18: that the ROKG's intention remained to keep the KIC open. However, Chin acknowledged that businesspeople were expressing growing reservations about operating at KIC, given the uncertainties about access and the knock-on effect on orders, though none had announced a closure since the first border interruption on March 9.

¶8. (C) Chin said that his office interpreted the initial March 9 KIC access cutoff as an inadvertent result of the North's announcement that all military-to-military communications would be severed during the Key Resolve/Foal Eagle exercises. However, MOFAT saw the second access cutoff on March 13, which stranded South Koreans at the KIC over the weekend, as a deliberate act. Even so, the message the North was trying to send was unclear: a protest against ROKG statements about the DPRK's missile launch, a reaction to ROK media stories saying that the North reopened access during that week just to get its USD 1.8 million payroll, or something else entirely.

-- MOU

¶9. (C) Ministry of Unification Deputy Spokesperson Lee Jong-joo, previously MOU's main liaison officer with the U.S. and other embassies, told us on March 18 that the MOU was not ready to draw conclusions about the North's cut off of and reopening of the transportation corridors. Other than the March 9 DPRK statement announcing that military-to-military communications would be cut off during the military exercises, the ROKG had received no explanation. Each day, MOU had enlisted private businesses in the KIC to ask the North Korean authorities at the KIC (the Central Special Direct General Bureau) for further information about its reasons for the access cutoffs and its future plans, but those inquiries had gone unanswered. The only communications coming from the North were the daily letters approving travel of persons and shipment of materials to and from the KIC; absence of such a message in the morning was the only way to know that access was being cut off for the day. Lee agreed with MOFAT officials that there was simply not enough information to determine whether the North faced internal disagreements, a resurgent military, or was trying to maneuver the South into closing the KIC. However, the

on-again off-again nature of access to KIC pointed at least to some confusion on the North's part. MOU's stance was to closely observe the KIC situation over the coming days. A cut off of access after the March 20 end of the joint military exercises would be viewed as very serious, indicating that the North was willing to truly jeopardize the KIC.

¶10. (C) Again citing MOU Minister Hyun In-taek's statement that the KIC would remain open, Lee added that at a March 15 meeting with Minister Hyun, held during the weekend that KIC businesspeople were prevented from returning to Seoul, CEOs of KIC companies had pressed Hyun hard in private to not let the KIC close. Asked about the resiliency of ROK businesses in the face of uncertainty about KIC access, Lee said that many of the small companies operating there are used to running on a shoestring, determined to keep making money at KIC (where labor costs are extremely low) as long as they can.

-- Former MOU Minister

¶11. (C) Former Unification Minister and Chief Delegate to Inter-Korean Talks (1998, 2002) Jeong Se-hyun told poloff on March 18 that both KIC border closure decisions were intentional, aimed to make the "train" the Lee Myung-bak administration understand that the North was in control of inter-Korean relations. Jeong, an MOU veteran of 30 years, predicted that the DPRK would not shut down the KIC because the Complex was created under direct orders from Kim Jong-il.

Jeong characterized the recent KIC border problems as a "child's play," saying that the North's real intention was not to close the KIC, but to raise tensions. Ultimately, according to Jeong, North Korea aimed to obtain greater leverage in the next round of negotiations with the United States -- through pressure on the KIC, its missile launch and expulsion of food monitors.

-- National Assembly

¶12. (C) Two National Assembly members, from the ruling Grand National Party and the Democratic Party, told us March 17 that the North's on-again, off-again restrictions on travel to and from the KIC cast the long-term viability of the experiment in economic cooperation in serious doubt. Neither lawmaker, however, in extended conversations about current political issues mentioned Kaesong until prompted by our questions. Neither lawmaker expressed any concern about the fact that South Korean citizens were detained in the KIC during March 13-16. One lawmaker speculated that the North would close the KIC as soon as it could find alternative employment for the some 40,000 North Korean workers currently employed by South Korean firms, possibly at the joint Korea-China economic project in Sinuiju, but others see such a move as unlikely because the Sinuiju project has not developed.

Business Reactions

¶13. (C) Director Yim Hwang-yong of S.J. Tech, a mid-sized company producing plastic valves in the KIC since 2005, described the current situation as the "worst since the company's inception." According to Yim, the present situation is far worse than the period after the 2006 nuclear test when the KIC companies were virtually unaffected. Yim said he felt "stuck;" unable to fill the customers' orders in confidence since border crossings could be interrupted again, and unable to pull out completely because his company would not receive insurance compensation unless the KIC were completely shut down by the DPRK.

¶14. (C) Yim dismissed the March 9 border closure as a "possible mistake" on the DPRK's part, but thought the March 13 closure sent a much stronger and worrisome message. Yim said the March 13 incident was a proof, and the first signal to the KIC companies, that the North Korean mood does affect the KIC and could lead to closure.

¶15. (C) On the other hand, Hyundai Asan Executive Vice President Jang Hwan-bin, representing the firm that developed the KIC, told poloffs on March 17 that despite temporary hesitation to invest in the KIC after the access restrictions, businesses would "forget" these troublesome times as soon as the North-South relations were restored and profits increased. Jang believed that South Korean businesses preferred the KIC over China, so the firms would not easily pull out from the KIC and leave behind affordable North Korean labor.

¶16. (C) Jang said that North Korean behavior after the completion of the joint U.S.-ROK military exercise on March 21 would be the key indication of Pyongyang's "true intentions" toward the KIC. Jang predicted that if border troubles at the KIC continued after the joint military exercise, this would indicate further deterioration of North-South relations. The trouble then, Jang commented, would be far beyond the KIC. For now, he agreed with the ROKG's cautious, day-by-day approach.

¶17. (C) Lamenting a lost opportunity to improve relations with the North, Jang pointed out that the current administration would have found itself in a better position with the North if it had promptly delivered the fiber optic cables requested by the North Korean military in June 2008 and again in October 2008. (NOTE: ROKG officials have told us they tried to set a date for delivering communications materials in October 2008 during military-to-military talks, but got no DPRK response. END NOTE.) Jang pointed to February 2009 as another missed opportunity, when the newly appointed Unification Minister did not show any interest in visiting the KIC or speaking positively about its expansion.

Comment

¶18. (C) If the DPRK was determined to raise tensions with its March 9, 13 and 20 KIC access closures, and the resulting weekend detention of 655 South Koreans, the ROKG, with support from the KIC business community, was equally determined not to let the episode become a crisis. At the same time, ROKG officials acknowledge privately that the KIC detentions would have become a crisis had they continued through March 16 or later. As IHT journalist Choe Sang-hun told us on March 19, the ROKG's main lesson over the March 13-16 period was that they had no way to get their citizens out of the KIC. ROKG officials are united in saying that they don't want the KIC to close, and believe that the DPRK wants it to remain open as well, but if ROK citizens are detained again, KIC will unravel.

STEPHENS